

MEMORANDUM FOR:

The Director

Executive Registry

74-405

Attached for your background information is a memo prepared in OSR that puts in perspective the recent columns by Joe Alsop on Soviet Defense spending.

The memo refers to "tabs" occasionally. I have not included these in order to spare you unnecessary detail.

Ed Proctor

18 Jan 74
(DATE)

FORM NO. 101 REPLACES FORM 10-101
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MEMORANDUM FOR: Director of Central Intelligence
FROM : Deputy Director for Intelligence
SUBJECT : Manpower Costs as a Share of Total
Defense Expenditures

1. The data I provided as backup for your briefing and the numbers in the memo I sent you concerning the Alsop articles are both consistent and correct. The problem--you will remember my exchange with Senator Byrd on this issue--revolves around the definition of manpower costs selected.

2. In paragraph 8 of the Alsop memo, the 33 percent share for US manpower costs includes only the pay and allowances for active military personnel. When all personnel costs are included--expenditures on retired personnel, pay for civilian employees, family allowances and the like--the percentage can range from 50 to 60 percent depending on the source consulted and the definitions selected. For our present estimates, OSR is using the Five Year Defense Program (FYDP) dated January 1973. These data will shortly be updated when the January 1974 FYDP becomes available.

3. By the way, you are correct--the Soviet manpower costs cited in paragraph 8 of the Alsop memo are for the 3.8 million active military personnel estimated to be in the Soviet armed forces in 1973.

[Redacted Signature]

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EDWARD W. PROCTOR
Deputy Director for Intelligence

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January 1974

MEMORANDUM

Comments on Criticisms by Joseph Alsop
of US Intelligence Estimates of
Soviet Defense Spending

1. In several of his recent columns appearing in the Washington Post--specifically on 14 November 1973 and 9 and 11 January 1974--Joseph Alsop characterizes US intelligence estimates of Soviet defense spending as being grossly understated. He also makes much of the fact that the USSR has a much lower military pay bill than the US does and so is able to spend a greater portion of its defense budget for the procurement of military hardware.

2. Mr. Alsop's basic message actually has little to do with economics: It is the statement that "we have been fooling ourselves blind, and for years on end, about the scope, intensity, and general success of the Soviet defense effort." This thesis cannot be proved or disproved through analysis of economic data. US estimates of Soviet defense programs and activities flow directly from information on the forces themselves--they are not derived from economic data published by the Soviets or estimated by US intelligence officers. The various monetary measures CIA uses to illustrate the economic implications of the estimated forces are themselves derived from the observed physical activity. Mr. Alsop compounds the basic fallacy by a vitriolic--and inaccurate--attack on the economic data, an attack which largely discredits itself in terms of logic and elementary economics.

Comments and queries regarding this memorandum are welcomed. They may be directed to [redacted] of the Office of Strategic Research, CIA, [redacted]

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3. To substantiate his argument, Mr. Alsop offers the following major points:*

Lower Cost of Soviet Military Manpower

Soviet manpower costs are on the order of \$18 billion out of total defense outlays of \$80 billion, leaving \$62 billion "to buy real strength in the form of weapons." The US, on the other hand, has only \$35 billion available from a \$73 billion defense budget to buy weapons.

Estimated Cost of Soviet Border Build-Up Revised Upward

Revised US intelligence estimates of the cost of the Soviet build-up on the China border--recently "tripled" over previous estimates--are "still inadequate because some omissions were not corrected."

Cost Estimates of Major Soviet Programs Patently Low

If one examines official US estimates of the dollar cost of selected Soviet defense programs about which the US knows a good deal--specifically the deployed SA-5s and SA-3s, the command communication network, and the test and development programs for the latest generation of ICBMs--"our estimates of Soviet defense spending simply cease to add up in US terms".

Soviets Acknowledge Defense Gets Large Share of GNP

Estimates by two Soviet economists--corroborated by the prominent Soviet dissident scientist, Andrei Sakharov--place Soviet defense spending at 40-50 percent of GNP compared to US intelligence estimates of only 9 percent.

The complete texts of the three columns are attached at Tab A.

4. Mr. Alsop's contentions and conclusions reflect a variety of misunderstandings and misuses of US intelligence estimates of Soviet defense spending. One confusion that appears to underlie a number of Mr. Alsop's judgments concerning analyses by US intelligence is that estimates of Soviet defense outlays in ruble terms can be used interchangeably with estimates of the dollar cost of Soviet programs. In fact, the two measures are quite different in concept and have distinctive applications.

--The estimated dollar costs of Soviet programs represent what it would cost the US to purchase identical military equipment, hire the same number of people with like skills and carry out the RDT&E, and operations & maintenance programs in the same fashion as the Soviets. Conceptually, the Soviet forces are viewed--for costing purposes--as alternative US forces.

--Estimates of the ruble costs of Soviet programs are based on our knowledge of the Soviet economy. The ruble figures attempt to reconstruct the defense effort of the USSR in Soviet financial terms, i.e., as they would appear to Soviet defense and economic planners.

5. The estimated dollar costs of Soviet defense programs are frequently compared with US defense figures. Such comparisons are not appropriate for drawing inferences concerning the relative productivities of the Soviet and US economies or for comparing the internal distribution of resources in the two countries. Moreover, comparisons of US defense spending and the estimated dollar costs of Soviet defense programs cannot be used to draw valid conclusions about the relative military effectiveness or capability of US and Soviet forces.

6. Estimates of Soviet defense spending in rubles form the basis for analyzing the magnitude, direction, and resource implications of defense programs from the perspective of the Soviet decision-maker. Such analyses give some appreciation of the relative priorities that Soviet decisionmakers probably attach to individual defense programs as well as to the defense effort as a whole.

Lower Cost of Soviet Military Manpower

7. Mr. Alsop apparently mixed ruble and dollar estimates in deriving the estimate of \$18 billion for Soviet military manpower cited in his 11 January article. His starting point was a reported statement by Brezhnev that military manpower costs are currently 22 percent of total defense outlays--CIA estimates the share to be about 25 percent in 1973. Both percentages are based on ruble data, reflecting the low cost of Soviet manpower in rubles. Neither figure represents what Soviet manpower would cost in dollars as a share of the total Soviet defense effort valued in dollars.

8. An estimate of the share of the Soviet defense effort devoted to personnel based on dollar costs of all Soviet programs can be derived by using the dollar costing methodology described above. This figure is only appropriate, however, for viewing the situation from the standpoint of a US defense planner considering the present Soviet force as an alternative US force. When active Soviet manpower is costed at US pay rates, it amounts to about \$35 billion in 1973, of a total Soviet defense effort of about \$81 billion in that year. Hence, the manpower cost share of this alternative US force--in dollar terms--is about 43 percent, not 22 percent or 25 percent. Comparable US manpower costs in 1973 were on the order of \$24 billion out of a total of some \$73 billion, or about 33 percent.

3.8 million ?

?

9. Mr. Alsop also makes the common false assumption that all funds not expended on personnel are available for buying new equipment. RDT&E and operating & maintenance costs must be met as well. To determine the relative sizes of the US and Soviet military procurement efforts, the procedure used by CIA is to estimate the dollar value of individual Soviet military production programs as if they were carried out in the US, sum them, and compare the result with total US procurement outlays. The results of such a comparison show that the estimated dollar values of the military procurement of the US and the USSR in 1973 are virtually identical--approximately \$18 billion. The reason for this

unexpected result is quite simple, if counter-intuitive: although manpower is relatively more expensive in the US than in the USSR, hardware is relatively cheaper.

Estimated Cost of Soviet Border Build-Up Revised Upward

10. Mr. Alsop's 14 November column cites alleged changes in official US estimates of the cost to the Soviets of the Sino-Soviet border build-up as evidence of the failure to assess the situation correctly--at least at the time of the earlier estimate. The later figure is significantly higher because it is an estimate of a different set of activities, over a longer time period, and using a different price base:

--The earlier estimate reflects cumulative incremental expenditures to increase the border force and does not include costs for strategic attack, strategic defense, and border guards. The later estimate includes costs to increase the force, costs to maintain those forces present before the build-up began, costs for strategic attack and defense and border guards, and costs reflecting improvements in order-of-battle and facilities estimates.

--There is a difference in the span of years covered by the two estimates (the earlier estimate covers 5 years, the later one covers 8).

--The price base was moved forward between the two estimates (the earlier estimate is in 1968 dollars while the later is in 1972 dollars).

Further, the allegation that "a series of critical, vastly expensive factors had been omitted from the old \$6 billion price tag" (including "30 brand new Soviet jet airfields") is incorrect. For the same set of forces over the same period of time, the present estimate is in close agreement with the previous estimate.*

**A more detailed comment on the Alsop column of 14 November is at Tab B.*

Cost Estimates of Major Soviet Programs
Patently Low

11. Mr. Alsop implies that estimates of the dollar costs for such defense programs as air defense systems, development of strategic missiles, and command communications are obviously too low. This criticism appears to be based in part on a misapprehension of what the estimates of the dollar costs represent. After these programs are defined and measured using all available intelligence information, estimates of what it would cost the US to reproduce these exact programs are made--in dollar terms as described above. These costs are, of course, in error to the extent our assessment of Soviet weapons systems is incomplete or incorrect. This type of error, however, is not likely to produce grossly misleading estimates.

Soviets Acknowledge Defense Gets Large Share
of GNP

12. Mr. Alsop cites a 1971 samizdat article by two Leningrad economists as evidence for his contention that the USSR has a burden of defense far greater than estimated by US analysts. CIA analysts did a critical review of this monograph when it became available in the West early last year.* This examination uncovered faulty assumptions and techniques in the Gol'tsov and Ozerov article which made the conclusions of their study completely invalid. The samizdat paper adds nothing to the understanding of the size of Soviet national income or Soviet defense spending.

--No new basic data on these subjects are presented in their paper. It uses Soviet published statistics long available to the West.

* A translation of the samizdat article and a fuller critique of it are at Tab C.

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--The key assumptions, statistical methods, arbitrary adjustments of the basic data and simplistic approach are so faulty as to discredit the results.

Sakharov repeats rather than confirms the assertions in the samizdat paper.

Attachments:

Tab A

Tab B

Tab C

TO:

		ACTION	INFO.			ACTION	INFO.
1	DCI			11	IG		
2	DDCI			12	D/PPB		
3	DDS&T			13	SAYA		
4	DDI			14	ASST/DCI		
5	DDO			15	AO/DCI		
6	DDM&S			16	EX/SEC		
7	D/DCI/IC			17			
8	D/ONE			18			
9	GC			19			
10	LC			20			

SUSPENSE

Date

Remarks:

These don't
 look right -
 Are they ? -
 (esp the US %)-